

LAKE IMPROVEMENTS COMMISSION

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SCHEDULE OF FINDINGS

JUNE 30, 2012

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LAKE IMPROVEMENTS COMMISSION

BOARD OF DIRECTORS

NAME

REPRESENTING

David Walker
Sara Huddleston
Ken Hach
Paul Merten
Gary Lalone
Steve Roth
Kathy Pomrenke

City of Storm Lake
City of Storm Lake
Buena Vista County
Buena Vista County
Lake Preservation Association
Lake Preservation Association
City of Lakeside

APPOINTED OFFICIALS

NAME

TITLE

James Patrick
Justin Yarosevich

Commission Administrator
Commission Secretary/Treasurer

HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
JASON K. RAVELING
TAMMY M. CARLSON, C.P.A.
RICHARD R. MOORE, C.P.A. (RETIRED)
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W. J. HUNZELMAN, C.P.A. 1921-1997

P.O. BOX 398
1100 WEST MILWAUKEE
STORM LAKE, IOWA 50588
712-732-3653
FAX 712-732-3662
www.hpcocpa.com

Independent Auditor's Report

Board of Directors
Lake Improvements Commission
Storm Lake, IA 50588

We have audited the accompanying financial statements of the Lake Improvements Commission as of and for the year ended June 30, 2012. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements are prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the cash basis financial position of the Lake Improvements Commission as of June 30, 2012, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2013 on our consideration of the Lake Improvements Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Commission's financial statements. Management's Discussion and Analysis on pages 5 through 7 is presented for purposes of additional analysis and is not a required part of the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Hunzelman, Putzier & Co., PLC

May 22, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Lake Improvements Commission (Commission) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the commission's financial statements, which follow.

FINANCIAL HIGHLIGHTS

The Commission's receipts increased approximately \$539,000 from fiscal 2011 to fiscal 2012, primarily due to an increase in grant receipts.

The Commission's disbursements increased approximately \$812,000 from fiscal 2011 to fiscal 2012, primarily due to a purchase of land.

Cash basis net assets decreased approximately \$240,000 from June 30, 2011 to June 30, 2012.

USING THIS ANNUAL REPORT

The Commission has elected to present its financial statements on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenue, expenses and the related assets and liabilities. Under the Commission's cash basis of accounting, revenue and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Commission's cash basis of accounting.

This discussion and analysis is intended to serve as an introduction to the Lake Improvements Commission's basic financial statement. The Commission is organized pursuant to the provisions of Chapter 28E of the Code of Iowa and is a component unit of the City of Storm Lake, Iowa. This annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statement and provides an analytical overview of the Commission's financial activities.

The Statement of Activities and Net Assets - Cash Basis presents information about the governmental activities of the Commission as a whole and presents an overall view of the Commission's finances.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Commission's receipts and disbursements and whether the Commission's cash basis financial position has improved or deteriorated as a result of the year's activities.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statement.

FINANCIAL ANALYSIS OF THE COMMISSION

Condensed Statement of Receipts, Disbursements, and Changes in Cash Basis Net Assets

The purpose of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances is to present the receipts received and the disbursements paid by the Commission. The statement also presents a fiscal snapshot of the cash balance at year end. Over time, readers of the financial statement are able to determine the Agency's cash basis financial position by analyzing the increase and decrease in cash basis net assets. A summary of cash receipts, disbursements, and changes in cash balance for the years ended June 30, 2012 and 2011 is presented below.

<u>Cash Receipts, Disbursements and Changes in Cash Basis Net Assets</u>		
	<u>Year Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
<u>Receipts:</u>		
Use of money and property	\$ 40,528	\$ 33,873
Intergovernmental	1,461,039	937,520
Miscellaneous	20,965	11,962
	<u>\$ 1,522,532</u>	<u>\$ 983,355</u>
<u>Disbursements:</u>		
Equipment operations	283,378	251,749
Equipment repairs	79,001	62,849
Insurance	34,847	34,946
Contractual services	351,675	190,914
Supplies	40,275	74,460
Capital outlay	<u>973,650</u>	<u>335,624</u>
Total disbursements	<u>1,762,826</u>	<u>950,542</u>
Net change in cash basis net assets	(240,294)	32,813
Cash basis net assets beginning of year	<u>1,982,909</u>	<u>1,950,096</u>
Cash basis net assets end of year	<u>\$ 1,742,615</u>	<u>\$ 1,982,909</u>

In fiscal year 2012, receipts increased \$539,177 or 55%. The City saw an increase in state grants. In fiscal year 2012, disbursements increased by \$812,284 or 86%. The increase was primarily due to a purchase of land for the spoil sight.

FINANCIAL ANALYSIS OF THE COMMISSION – (continued)

Net asset serve as a useful indicator of financial position. The Commission's cash balance decrease \$240,294 from a year ago. The analysis that follows focuses on the changes in cash balance.

Changes in Cash Basis Net Assets

	<u>Year Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Operating grants and contributions	\$ 1,482,004	\$ 949,033
General receipts:		
Unrestricted investment earnings	9,881	17,226
Rent	30,647	16,647
Miscellaneous	-	449
	<u>1,522,532</u>	<u>983,355</u>
Disbursements		
General operations	<u>1,762,826</u>	<u>950,542</u>
Increase (decrease) in cash basis net assets	(240,294)	32,813
Cash basis net assets beginning of year	<u>1,982,909</u>	<u>1,950,096</u>
Cash basis net assets end of year	<u>\$ 1,742,615</u>	<u>\$ 1,982,909</u>

LONG-TERM DEBT

At June 30, 2012, the Commission had no outstanding debt.

ECONOMIC FACTORS

The current condition of the economy in the state continues to be a concern for Commission officials because operations are contingent on the continued support from federal, state and/or local government. Some of the realities that may potentially become challenges for the Commission to meet are:

- Equipment requires constant maintenance and upkeep.
- Increased fuel costs and operational costs.
- Cash flow issues because of the dependence on contributions and timeliness of state and/or local assistance.

The Commission anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Commission's ability to react to unknown issues

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lake Improvements Commission, City of Storm Lake, Iowa, by phone at (712) 732-8000 or by email at justin@stormlake.org.

LAKE IMPROVEMENTS COMMISSION
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
JUNE 30, 2012

Exhibit A

		Program Receipts	Net Disbursements
	Disbursements	Operating Grants and Contributions	and Changes in Cash Basis Net Assets
Governmental activities	\$ 1,762,826	\$ 1,482,004	\$ (280,822)
General receipts:			
Interest on investments			9,881
Rent			30,647
			40,528
Net change in cash basis net assets			(240,294)
Cash basis net assets, beginning of year			1,982,909
Cash basis net assets, end of year			\$ 1,742,615
Cash Basis Net Assets:			
Unrestricted			\$ 1,742,615

See notes to the financial statement.

LAKE IMPROVEMENTS COMMISSION
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS NET ASSETS
YEAR ENDED JUNE 30, 2012

Exhibit B

Receipts:

Use of money and property:

Interest on investments	\$ 9,881
Rent	<u>30,647</u>
	<u>40,528</u>

Intergovernmental:

State Grants	1,413,078
Contributions - local governments	<u>47,961</u>
	<u>1,461,039</u>

Miscellaneous:

Contributions - other	<u>20,965</u>
Total receipts	<u>1,522,532</u>

Disbursements:

Equipment operations	283,378
Equipment repairs	79,001
Insurance	34,847
Contractual services	351,675
Supplies	40,275
Capital outlay	<u>973,650</u>
Total disbursements	<u>1,762,826</u>

Net change in cash basis net assets (240,294)

Cash basis net assets, beginning of year 1,982,909

Cash basis net assets, end of year \$ 1,742,615

Cash Basis Net Assets:

Unrestricted \$ 1,742,615

See notes to the financial statement.

LAKE IMPROVEMENTS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. Summary of Significant Accounting Policies

The Lake Improvements Commission (Commission) was formed in November 2002, pursuant to the provisions of Chapter 28E of the Code of Iowa. The primary purpose of the Commission is to finance and effect a continued dredging of Storm Lake to enhance the use of the lake for water recreation, to promote fishing and to guarantee the continued existence of this natural water resource. The secondary purpose is to identify and promote water quality/watershed projects to improve the water quality of the lake and minimize the re-accumulation of silt.

Members of the Commission consist of the City of Storm Lake, Iowa, the City of Lakeside, Iowa, Buena Vista County, Iowa, and the Lake Preservation Association for Storm Lake, Inc. (a nonprofit organization). The governing body of the Commission is comprised of one representative from the City of Lakeside and two representatives from each of the other members. The Commission is financially dependent upon member contributions.

A. Reporting Entity

For financial reporting purposes, the Commission has included all funds, organizations, agencies, boards, commissions, and authorities. The Commission has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Commission are such that exclusion would cause the Commission's financial statement to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Commission to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Commission. The Commission has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Commission are organized as a governmental fund. Governmental fund activities are supported by intergovernmental revenue and other operating grants. The Commission has a general operating fund, and all receipts are accounted for in this fund. From this fund are paid the general operating disbursements, fixed charges, and capital improvement costs. All net assets are considered unrestricted.

C. Basis of Accounting

The Commission maintains its financial records on the basis of cash receipts and disbursements, and the financial statement of the Commission is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statement does not present the financial position and results of operation of the Commission in accordance with accounting principles generally accepted in the United States of America.

D. Budget Information

The Lake Improvements Commission is not legally required to adopt a budget.

LAKE IMPROVEMENTS COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

2. Deposits and Investments

The Commission's deposits at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Commission is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Commission; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

3. Risk Management

According to the 28E Agreement, the Commission purchases and maintains general liability insurance covering all operations and public officials' liability insurance on behalf of its Board of Directors.

4. Related Party Transactions

The Commission uses a dredge and associated equipment purchased by Buena Vista County. The Commission does not pay for the use of these items. The commission estimates the fair value of the use of the equipment to be \$30,000.

5. Litigation

The Commission is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. Commission officials believe the outcome of these matters will not have a material adverse effect on the Commission's financial statements.

6. Subsequent Events

Subsequent to the year ended June 30, 2012, the Commission entered into a contract for the dredge spoil site expansion with a cost of approximately \$1,200,000.

HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

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P.O. BOX 398
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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with Government Auditing Standards

To the Members of
Lake Improvements Commission
Storm Lake, IA 50588

We have audited the accompanying financial statements of the Lake Improvements Commission as of and for the year ended June 30, 2012, and have issued our report thereon dated May 22, 2013. Our report expressed an unqualified opinion on the financial statement, which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the Lake Improvements Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Commission's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as items I-A-12 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Commission's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Commission. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Commission's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the responses, we did not audit the Commission's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the members of the Lake Improvements Commission and other parties to whom the Commission may report. This report is not intended to be, and should not be, used by anyone other than these specified parties.

Hunzelman, Putzier & Co., PLC

May 22, 2013

LAKE IMPROVEMENTS COMMISSION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Findings Related to the Financial Statement:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- A. Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for the Board to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response – The Commission will consider obtaining additional knowledge where cost effective but will continue to rely on its audit firm for assistance with drafting the financial statements and disclosures.

Conclusion – Response accepted.

LAKE IMPROVEMENTS COMMISSION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Other Findings Related to Required Statutory Reporting:

- A. Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- B. Travel Expense - No disbursements of money for travel expenses of spouses of Commission officials or employees were noted.
- C. Commission Minutes - No transactions were found that we believe should have been included in the Commission minutes but were not.
- D. Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 128 and 12C of the Code of Iowa. The Commission's deposits and investments are held by the City of Storm Lake and included in the City's depository resolution.